

14.02 Treasury Stock

Often, shares are repurchased but not retired. These **treasury shares** are *not paid dividends and are not voted*, so they reduce the number of shares outstanding. They are considered **authorized, issued, but not outstanding**. When the company intends to hold the shares indefinitely, it will account for treasury shares under the **par value method**. The entry is similar to retirement, except that the debit to common stock is instead, recorded to treasury stock, and any APIC-Retired stock is instead recorded as APIC-T/S. Treasury shares held under the par value method are not reported directly on the financial statements, but reduce the amount shown as common stock.

- Treasury stock (two methods)
 - Cost Method
 - Par Value Method (Legal / stated value method)

Example: Issue 20,000 shares of \$5 Par value C/S @ \$25 per share.

1. Cost Method (Cost In, Cost Out → Until Retire)				Par Value Method (Legal method) (Par In, Par Out)			
Cash	500,000			Cash	500,000		
C/S (20 (\$5))		100,000		C/S (20 (\$5))		100,000	
APIC – C/S (20 (\$20))		400,000		APIC – C/S (20 (\$20))		400,000	
2. Repurchase 2,000 @ \$19							
Treasury Stock – Cost	38,000			APIC – C/S (2,000 (\$20))	40,000		
Cash		38,000		T/S (2,000 (\$5))		10,000	
				Cash		38,000	
				APIC – T/S		12,000	
3. Resell 700 @ \$22							
Cash	15,400			Cash	15,400		
APIC – T/S/RE		X		T/S (700 (\$5))		3,500	
T/S (19 (\$700))		13,300		APIC – C/S		11,900	
APIC – T/S		2,100		Like a new issuance			
4. Resell 500 @ \$15							
APIC – T/S	2,000			Cash	7,500		
Cash		7,500		T/S (500 (\$5))		2,500	
T/S (500 (\$19))		9,500		APIC – C/S		5,000	

OR

5. Retire 300 – No longer issued or outstanding

C/S (300 (\$5))	1,500		
APIC – C/S (300 (\$20))	6,000	C/S	1,500
T/S (300 (\$19))	5,700	T/S	1,500
APIC – T/S	1,800		

Note: Under the cost method, T/S is considered a contra Equity account. Under the par value method, T/S is considered a contra C/S account.

If one share of \$10 par value stock that was originally issued for \$13 was reacquired under the **par value method** at \$12, the entry would have been:

Treasury stock	10	
APIC–C/S	3	
APIC–T/S		1
Cash		12

If reacquired at \$15, the entry would have been:

Treasury stock	10	
APIC–C/S	3	
Retained earnings	2	
Cash		15

APIC–T/S and/or APIC–Retired stock would have been debited instead of retained earnings to the extent that such amounts existed from previous transactions.

A subsequent resale of these shares is reported in a similar manner to a new issuance, except that treasury stock is credited for the par value of the shares instead of common stock. If the share reacquired in either of the transactions on this page is subsequently resold at \$18, the entry is:

Cash	18	
Treasury stock		10
APIC–C/S		8

Notice that the credit to APIC is on common stock, not treasury stock.

When shares are reacquired with the intention of reselling them soon thereafter, the treasury shares are accounted for under the **cost method**. Using this approach, the shares are recorded at cost and reported separately on the financial statements as the last account in stockholders'

equity. There is no difference between shares repurchased below the original issue price or above it. If the shares mentioned earlier are acquired for \$12, the entry under the cost method is:

Treasury stock	12	
Cash		12

A subsequent resale at \$18 is recorded as follows:

Cash	18	
Treasury stock		12
APIC-T/S		6

Notice that the APIC is from treasury stock. The APIC-C/S from the original issuance is not disturbed.